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COUNTRY REPORT ON EGYPT

Report to the

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by the

SWNC Subcommittee for the Near and Middle East

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E N C L O S U R E

COUNTRY REPORT ON EGYPT

Report by the State-War-Navy Coordinating Subcommittee
for the Near and Middle East

BACKGROUND

I. ANALYSIS OF THE SITUATION IN THE COUNTRY.

The basic economy of Egypt was not seriously affected by the war. However, largely as a result of Allied military expenditures, Egypt emerged as a creditor nation with sterling assets of about 450 million pounds (\$1.8 billion). Historically the ability to import has depended chiefly on cotton, the main export crop. Current economic welfare largely hinges on the ability to export cotton and the world prices obtaining therefor. While a considerable number of infant industries sprang up during the war, some undoubtedly will prove unable to withstand foreign competition under more normal trade conditions.

Egypt is aware of the need of industrialization to balance the predominantly agricultural economy and to absorb excess agricultural population. For the first time an Egyptian Economic Congress was held in 1946. It proposed a program for industrialization and the improvement of foreign trade. In addition, the Government has come out with a five-year plan entailing an expenditure of EL 26 million which is to be met from national resources. The plan includes provision for public works, road building, drainage and irrigation projects, public health, education and social welfare. The most important development projects now contemplated for which foreign financial and technical assistance may be requested are the hydro-electricification of Aswan Dam, together with a nitrate plant nearby and a fertilizer plant in the Delta.

Despite the need of foreign capital to facilitate industrial development, there is substantial political pressure to adopt

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restrictive measures with respect to foreign firms and foreign capital. This political pressure is a phase of the strong nationalistic movement within the country, and will retard active participation of foreign private investment in Egyptian industry.

The present political situation in Egypt is unstable. The prevailing poverty of the majority of the population, disparity in the distribution of wealth and inflated prices have combined to produce an undercurrent of restlessness, which, fanned by Communist infiltration, tends to weaken the government's stability and effectiveness. The situation has been aggravated by the refusal of the leading party, the Wafd, to participate in what it considers a "minority" government, insisting that new elections should be held. Members of the aristocracy and foreigners who own a considerable portion of Egypt's wealth are currently the target of popular antagonism.

Recent political activities have centered around negotiations for the revision of the Anglo-Egyptian Treaty of Alliance of 1936. These negotiations broke down over the question of the status of the Sudan, although agreement had been reached on the evacuation of British troops from Cairo and the Delta and a joint consultation on the defense of Egyptian and neighboring territories. Nokrashy Pasha, the Prime Minister, has announced his intention to bring the dispute between Great Britain and Egypt to the Security Council in the near future. The protracted negotiations, their deadlock, and the flush of nationalist exuberance, occasioned by the final departure of British troops from Cairo and the Delta, have led to an increase in xenophobic incidents directed primarily against the British. Preoccupation with the controversy over revision of the 1936 treaty has postponed careful consideration of the Treaty of Friendship, Commerce and Navigation submitted to Egypt by the United States in 1946. Egypt maintains a consistent interest in the Palestine,

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Libyan and North African questions, both direct and through the Arab League, in which Egypt plays a leading role.

Egypt's major financial problems arise from the large holdings of inconvertible British sterling accumulated during the war and the highly inflationary conditions prevailing. Britain financed war expenditures in Egypt through the sale of the obligations of the British Government to the National Bank of Egypt. More than half of the sterling balances is privately held. Several difficulties confront the country in connection with the dissolution of the sterling bloc especially with respect to the convertibility of sterling holdings. Since the price level in Egypt is three times higher than the official British level there is possibility of depreciation of the Egyptian £ in relation to sterling. At present British securities cover 80% of the Egyptian note circulation. The Egyptians want to increase the gold cover of notes from 8% to 25%. They have been exploring the possibility of obtaining an \$88 million stabilization credit but so far have been discouraged by the United States from making formal application. There is also the question of the future of the National Bank of Egypt, a private bank subject to British influence with exclusive right of note issue. The possibility of making it a department of the Egyptian Treasury is under consideration. Improvement in the organization for the control of foreign exchange is another problem awaiting solution.

In the past the British tended to attain their objectives in Egypt through direct political control, but in recent years their policy has been one of gradual relaxation of political control and strengthening of economic ties. The independence of Egypt was recognized by the UK in 1922 but certain restrictions on its complete sovereignty were imposed. While the UK has offered completely to withdraw its troops even from the Canal Zone by September 1949 as one of the treaty revision proposals, it will continue to maintain that the Treaty of Alliance of 1936 remains

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• in force until 1956, unless replaced by a new agreement. In view of various military and political factors, the British may decide to establish their main military bases in Kenya rather than in the Mediterranean area. But even if this is done, lesser installations located in the general area of the Suez Canal are considered essential. In consequence, the British are most reluctant to depart from the banks of Suez Canal until they can be sure of having permanent military establishments in Palestine or Cirenaica, or both. On the whole, realization of British objectives in Egypt, as in other countries of the area, has been largely accomplished by support of the ruling pasha class rather than by far-sighted and vigorous efforts to improve the economic and social welfare of the bulk of the population.

Since the beginning of the century, France has sought to maintain its political and economic objectives through cultural influences. Of the smaller countries Greek commercial activities have been predominant but divorced from political objectives. With the opening of the Soviet legation in 1945, the objectives of the USSR have been guardedly but actively in support of class consciousness, anti-British and anti-American propaganda and the spread of communist ideology in Egypt. Though recognizing the strategic geographical position of Egypt, Russia has so far made no overt demands on Egypt itself but has evinced an interest in the flanking countries of Libya and Eritrea.

II. ANALYSIS OF ASSISTANCE ALREADY RECEIVED.

The United States has given no direct economic aid to Egypt, nor is any large scale assistance contemplated. Minor transactions in United States surplus property and defense aid have occurred, which may be said to have no political effect. In 1946 the United States sold surplus property to Egypt valued at \$7.9 million. Payment in part is being received in property for diplomatic and consular establishments; the remainder in Egyptian pounds will be available for United States Government expenditures.

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III. UNITED STATES OBJECTIVES IN THE COUNTRY.

In general our objectives in Egypt are to maintain and improve our historically friendly relations and to encourage its independent development. Strategically, the maintenance of the security and integrity of Egypt is necessary for the security of the United States. To the maximum feasible extent, our strategic interests in Egypt should be safeguarded through support of and cooperation with the British.

We should encourage Egypt to give full support to the UN and its organizations, and to utilize the latter. We should also encourage Egypt to foster liberal trading policies and to promote human freedom and democratic institutions, assist in improving the welfare of its people by supporting its requests for sound and needed financial assistance, by making available our technical, scientific and educational experts, and by otherwise strengthening our educational, informational and cultural programs. Such encouragement and assistance should assist Egypt to develop along sound lines.

IV. CONSIDERATION OF ALTERNATIVE MEANS OF REACHING OBJECTIVES.

The United States has no specific program of economic or political assistance to Egypt as a means of attaining the general objectives above. There does not appear need for extensive American financial aid in connection with economic development, the impetus and planning for which should come from the Egyptians themselves. However, the United States should be prepared to advance these developments by encouragement on the political level, and by means of technical assistance.

The principal problem faced by Egypt in financing capital development lies in the fact that while a creditor country, her foreign exchange assets are in sterling. Negotiations with the British are now in progress with respect to both scaling down the balance of about 450 million sterling and the terms of liquidation of the remainder. To date no settlement has been reached on either issue. At best Egypt can expect to obtain

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liquidation of these assets at the rate of a small percentage per year and may well require such sterling as is available over and above current earnings to meet current consumer goods requirements in the period immediately ahead. Thus any substantial capital requirements will probably have to be financed from abroad. However, there is every reason to assume that these requirements may be financed through private channels or established international lending agencies.

Small loans for specific projects such as the contemplated hydro-electric and nitrate plant development at Aswan dam and the fertilizer plant in the Delta appear to be of the general type which might be financed by the International Bank or possibly the Export-Import Bank.

A program of assistance in the cultural, informational and technical fields would be useful in attaining United States objectives in Egypt. Such a program might consist of:

1. The limited interchange of scholarships for capable and otherwise suitable Egyptian students to do specialized work in American universities in such fields as agriculture, medicine, public health, government, social studies, engineering;
2. Fellowships for suitable U.S. professors and specialists to work in Egyptian universities;
3. Fellowships for suitable professors and specialists from Egypt to do research or specialized training in the U.S.;
4. Assistance to the American University of Cairo;
5. Intensified public relations and informational program; and
6. A program of translation in Arabic of basic American works designed to bring about a better understanding of the U.S. among Egyptians.

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This program should, insofar as possible, be financed by funds made available through the provisions of the Fulbright Act which would utilize funds derived from the sale of surplus property in Egypt. For this purpose it is contemplated that the total sum of \$3.3 million will be utilized, arising from the sale of surplus property to Egypt.

V. MAGNITUDE, NATURE AND TIMING OF THE MEASURES REQUIRED WITHIN THE NEXT THREE TO FIVE YEARS TO REACH THESE OBJECTIVES.

The magnitude, nature and timing of the measures required in the next three to five years will depend upon the availability of funds and the development of Egypt's internal and international situations. As stated above, it is expected that the total of "Fulbright money" available for Egypt will be \$3.3 million.

VI. PROBABLE AVAILABILITY OF ECONOMIC AID FROM EXISTING SOURCES UNDER PRESENT POLICIES.

As has already been stated, Egypt should be able to finance its development. During the war the Egyptian Government announced a plan for the conversion of the external debt and in 1944 repaid the Ottoman tribute loans and the external consolidated debt. The internal debt in 1946 amounted to EL 102 million. In addition there were indirect liabilities of EL 46 million for railways and dredging. However, the government has established a cumulative surplus of EL 68 million with which to finance a portion of its post-war development program, and is in a favorable position with respect to both internal and external debt.

Other sources of assistance are the International Bank, The Export-Import Bank, and the International Monetary Fund. The International Bank may be expected to assist in financing sound projects which cannot be met by private investors on their own account. The Export-Import Bank may also assist in financing individual, well-planned industrial projects in Egypt which will facilitate sound economic development. The Monetary Fund

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will assist in promoting exchange stability and in meeting short-term maladjustments in the balance of payments.

VII. ADDITIONAL MEASURES REQUIRED FROM THE UNITED STATES.

No additional measures of assistance are required from the United States. A possible request for extensive dollar credits for military expenditures for equipment should be refused.

VIII. NATURE OF ARRANGEMENTS WITH THE FOREIGN GOVERNMENT TO ASSURE ACCOMPLISHMENT OF OUR OBJECTIVES IN TAKING SUCH MEASURES.

None is necessary.

IX. EFFECTS UPON THE COUNTRY AND UPON UNITED STATES FOREIGN POLICY IN U.S. REFUSAL TO GRANT AID OR OF FAILURE OF PROGRAM UNDERTAKEN.

If the United States Congress should reduce the OIC program, the prestige and influence of the United States would be impaired. The program of technical assistance would be definitely jeopardized.

X. POSSIBLE EMERGENCY SITUATIONS WHICH SHOULD BE ANTICIPATED AND RECOMMENDED COURSE OF ACTION OF THE UNITED STATES.

An emergency situation in Egypt might arise out of one or more of the following occurrences:

1. Russian hostilities.
2. General Arab uprising growing out of a pro-Zionist solution of the Palestine problem.
3. A popular revolt touched off by failure of the UN to reach a satisfactory solution of the Anglo-Egyptian problem. This might be directed against the British, the ruling class or the present government and might be precipitated by pro-communist influences, religious or nationalist extremists.

In the even of an emergency caused by internal revolt in Egypt, United States assistance should continue, pending a reappraisal of the situation.

Should Russian hostilities break out, the retention of Northern Egypt and Sinai would constitute the initial strategic requirement of the United States.